Predictions: Procurement Trends – 2018

RFG Perspective: Unlike the past few years, there will be global economic and geopolitical tailwinds in 2018, which will enable more businesses to increase their IT budgets. The passage of the 2018 Tax Cut and Jobs Act of 2017 will boost corporate spending, especially for capital expenditures. Additionally, the disintermediation impacts of the digital economy will disrupt more businesses – and whole industries – which, when addressed by corporate executives, will impact numerous procurement decisions. CFOs and procurement executives will need to acquire more and better offerings quicker and at a lower cost while better protecting the organization from cybersecurity attacks, vulnerabilities and other risk exposures.

The global economic environment will have one of its best years in 2018 in a long time, unless a black swan event occurs (such as a war with North Korea). The new U.S. tax legislation will drive additional economic gains making IT budgets a little less constrained. However, the optimism generated by the Trump administration has changed the dynamic for U.S. domestic companies; but the impact of the expected changes will not hit all industry sectors equally. Additionally, protectionism is gaining traction in various places across the globe, which could impair growth as well. Therefore, procurement must continue to contain costs, enhance compliance, and minimize risks. Below are the top areas that RFG believes will be the major procurement initiatives that will get the most attention.

2018 Tax Reform Act Impacts – There are three major components of the Tax Cut and Jobs Act of 2017 legislation that will impact U.S. CFOs and procurement: the new tax rates; a shift to a territorial tax system; repatriation of overseas funds; and immediate expensing for capital expenditures. The first three elements will open up the spigots for more funding in most firms while the immediate expensing of capital expenditures will drive a significant upturn in purchases. While this may be a great boost to the bottom line, procurement staff need to examine this carefully. Enterprises should not be buying most IT equipment as the half-life is less than three years and the hardware should be rolled over within that time frame. Similarly, companies will need to take a close look at the tradeoffs between spending more on data centers vs. moving hardware out to colocation sites or the cloud. Procurement staff should make these decisions only after looking at the total cost of ownership (TCO) and the return rate over five years and not go with the gut feel that purchasing is the best acquisition solution. Because the analytics is time consuming and difficult and financing is not a sweet spot for many, RFG believes many firms will buy outright equipment they should not have and will pay for this error in the out years.

Analytics – Analytics is becoming part of the procurement process. New analytic tools are available to help monitor purchasing activities and invoices against original plans and commitments. This should help keep more of the procurement activities from being executed on an exception basis and help keep the vendors adhering to the contracts. Procurement staff should be finding and implementing analytic tools that help them achieve their performance metrics as these tools will quickly pay for themselves.

Automation/back order – The trend toward more automation should minimize back orders. Enterprises should be insisting that deliveries be as in the contract "all or none" so that the high expense of back orders is virtually eliminated. RFG expects some movement in this area in 2018.

Blockchain – 2018 will see the release of a number of blockchain solutions that will help procurement and accounts payable/receivable groups. RFG expects many of these will be pilots. Some of these solutions have already shown how effective they are in saving firms money. RFG expects smart contracts to be the first general use case for blockchain (aside from the current cryptocurrency madness) as there are fewer regulatory hurdles to overcome in their usage.

Cloud/Lease/Purchase/Build – This acquisition mix is being stirred again due to the new tax laws and regulatory legislation like the general data protection regulation (GDPR) and the new security concerns driven by the Intel Meltdown and Spectre bugs. Thus, procurement may feel incented to buy more equipment and put a moratorium on the movement to the cloud. Instead, 2018 should be a year where procurement invests less in purchased IT equipment and pursues other acquisition avenues.

Cloud Pricing – CSP and MSP competition and pricing pressures will not abate in 2018, as providers vie for market share and survival. However, due to regulatory concerns and breaches like the Equifax one, decisions should not be made on price alone. Procurement needs to understand the multiple unique prices being offered by the various CSPs as the best deals vary by cloud offering type and configurations, which means a multi-cloud approach will be superior to a simple hybrid cloud approach. This could prove to be a point of contention in 2018 with developers who are planning on writing code with affinity to a specific cloud provider. Procurement will need to be more proactive to truly succeed.

Controls and Metrics – With more and more work being done by cloud providers, colocation providers, consultants and outsourcers, success will require more and better controls and metrics. These need to be incorporated into the contracts along with the SLAs so that this business model shift does not result in loss of control and reduction in service. Too many contracts in 2018 will not have strong enough controls and good breach definitions and penalties, which will result in a number of discouraged firms and tarnished images.

ECommerce self-serve – Amazon continues to show the way to be customer focused and friendly. Their use of analytics, bundling of services, low prices and one-click ordering will keep them at the head of the pack. Look for Amazon to seek other areas that it can disintermediate. B2B and B2C organizations need to emulate Amazon and other eCommerce leaders if they wish to remain competitive and become the first-choice provider in the new digital economy. No one should consider itself immune. Companies should have started down this path already. This window of opportunity is likely to close by yearend 2020.

GDPR – The EU's General Data Protection Regulation, which goes into effect at the end of May, 2018, is a game changer. It is the first regulation that has teeth behind it – ***a penalty***

***of up to four percent of annual global revenues*!** Nothing to sneeze at. It will impact any firm that has a presence in the EU – which could even just be a Web site accessible from there. Not only does this force change within the organization but, for the first time, it introduces direct obligations for external data processors. Other existing legislation only holds data controllers liable for non-compliance with the current data protection laws. Now, data processors, including cloud providers, will be subject to penalties and civil claims by data subjects who believe they have been harmed for the first time. The regulation also requires all data processor to maintain a record of their data processing activities if any one of the following criteria are met:

- Processes data that is "likely to result in a risk to the rights and freedoms of data subjects"
- Processes data more than occasionally
- Employs 250 or more persons
- Processes special categories of personal data
- Processes data relating to criminal convictions

While many firms are feverishly working on being compliant in time, RFG expects there will be a number of failures and public admonishments of these shortfalls as the regulators seek to make examples of these companies. Procurement needs to take this significant change into account when structuring deals and negotiating contracts.

Green - Energy efficiency/sustainability – For all its value, this remains a low priority (again) for most executives. IT executives should be making it a part of other initiatives and a procurement requirement. RFG studies find that energy savings is just the tip of the iceberg (about 10 percent) that can be achieved when taking advantage of newer technologies. RFG studies also show that in many cases the energy savings from removing hardware kept more than 40 months can usually pay for new better utilized equipment. Most organizations still keep zombie servers in operation and they can be up to 20 percent of the server population (by the way, the same could occur with workloads in the cloud). The shift to containers may exacerbate this problem until new and better tools are in place. The half-life of IT hardware is less than three years; IT executives should act accordingly and lease, move to the cloud, outsource, or rent.

SaaS – Data center transformation is not about IT any longer but now ties to the redefinition of an organization's business model. The use of SaaS providers (or becoming one) will gain momentum in 2018 – regardless of the above issues. This will mostly be driven by the business units acting independently in their desire to compete. The contracts and the terms therein will not match up to the parameters desired by procurement unless they can play a major role in the contract negotiations. Procurement staff will be challenged to gain control of these deals and can expect a number of them to backfire – leaving procurement to clean it up.

RFG POV: 2018 will be another challenging year for procurement as companies striving to remain competitive may short-circuit procurement and thereby create an untenable risk exposure. Procurement executives will need improve their controls, metrics, and processes if they intend to gain full control of all purchases and provisioning deals. Procurement executives should collaborate with business, financial, IT, and legal executives so that budgets, plans and acquisitions dovetail with the business and acquisition directives and goals.

Additional relevant research is available at www.rfgonline.com. Interested readers should contact RFG Client Services to arrange further discussion or interview with Mr. Cal Braunstein.